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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 1817

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

RUCNCIS/CIS COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUEHAK/AMEMBASSY ANKARA 4469

RUEHBJ/AMEMBASSY BEIJING 2281

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RUCPDOC/DEPT OF COMMERCE WASHDC

RHEHNSC/NSC WASHDC

RHMFIISS/CDR USCENTCOM MACDILL AFB FL

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RUEKJCS/JOINT STAFF WASHDC

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RUEHVEN/USMISSION USOSCE 3035

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001467

SIPDIS

STATE FOR SCA/CEN, EEB

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TAGS: PREL EFIN EIND AORC TX

SUBJECT: TURKMENISTAN: EBRD NOTES PROGRESS ON REFORMS, BUT TOO EARLY TO PREDICT A FINAL RESULT

Classified By: Charge d'Affaires a.i. Sylvia Reed Curran for reasons 1. 4 (B) and (D).

¶1. (SBU) SUMMARY: The local European Bank for Reconstruction and Development ("EBRD") office head (please protect) said that he is encouraged by what appears to be some loosening of government control in the financial sector, both in areas such as loan policy as well as interactions with international counterparts. However, he also noted that the Ministry of Communications has not met EBRD's deadline for feedback on a generous, comprehensive technical assistance package to introduce a third cellular telephone service provider. He also said Turkmen officials still expect international vendors to jump when they say that the president wants a change, even under unreasonable time conditions. The EBRD official will report to his board on November 11 that there are reasons for optimism on Turkmenistan's reform progress, but that it is too early to tell if it will eventually result in substantial reform. END SUMMARY.

SOME SIGNS OF INCREASING OPENNESS WITHIN THE GOVERNMENT

¶2. (C) EBRD Ashgabat Resident Office Head Neil McKain (please protect throughout) said on November 4 that he sees signs that the government is relinquishing control in the financial sector, for example in interest rate polices for loans to consumers and to small and medium enterprises. In addition, he is encouraged that, with increasing frequency, financial sector officials freely engage in discussions about key issues. At an October 31 pre-launch event for the redenominated currency that will circulate beginning on January 1, 2009, McKain discussed a variety of sensitive topics with ministers from economics-related ministries and bank directors within earshot of their boss, Central Bank Chairman Guvanchmurat Goklenov. Topics included technical issues of audits and subjects such as upcoming International Financial Reporting Standards (IFRS audits). McKain noted that this event and the discussions around it were "basically the same as any other business event anywhere in the world." Goklenov said the government expects higher inflation following the introduction of the redenominated currency, adding that the country's economic and finance leaders expect to minimize effect with price controls. McKain was able to

complement the Chairman's remark with a solid, professional answer to what in the past would have been considered a sensitive and embarrassing question.

NEWS FROM CURRENCY PRINTER DE LA RUE

¶3. (C) British company De La Rue, the world's largest commercial security printer, holds the contract for printing Turkmenistan's new currency. According to McKain's contacts at De La Rue, Turkmenistan has changed every design and security element -- colors, foil placement, and watermark -- in the new currency since it signed the contract. These contacts also reported that government representatives called with urgent requests -- reportedly from the president's office -- to change elements on October 27 or 28, even as the company had scheduled printing to begin on October 31, with the government's knowledge. De La Rue responded to the requests that if Turkmenistan insisted on making these changes, the banknotes would be ready in March 2009. De La Rue will deliver the notes -- with the original design -- by the end of the first week of December.

MINISTRY OF COMMUNICATIONS ALSO PUSHES DEADLINES

¶4. (C) EBRD has offered comprehensive support to the Ministry of Communications to assist in bringing a third cellular network service provider to Turkmenistan. The assistance would include the tender process, training, and financing of investment costs -- all according to international standards that would attract potential bidders.

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McKain said that although the offer of a financing package was unprecedented, the Ministry missed the October 31 deadline to respond. McKain didn't know when the government planned on setting this process in motion.

OPERATION AND REFORM PROGRESS REPORT FOR EBRD BOARD

¶5. (C) McKain will deliver a report on EBRD's in-country operations and Turkmenistan's reform progress to the EBRD board on November 11. He expects to say that there are reasons for optimism, but that it is too early to tell if Turkmenistan's work will result in substantial reform. He also said that he will propose that the conduct of the upcoming Mejlis elections and rollout of the redenominated currency will be signs of what can be expected in the future.

¶6. (SBU) COMMENT: McKain's observations are valuable because as a banker, the government invites him periodically to events such as the event for the redenominated currency that allow him to interact with the country's bankers on a purely business level. He presents balanced observations of Turkmenistan's progress along with ever-present challenges, including indecision and bureaucracy. END COMMENT.

CURRAN